

- The **CIP Technology Review Team** and **CIP Construction Review Team** are comprised of mid-level staff from various City departments. These cross-departmental teams are responsible for reviewing the initial review of all of the City's capital projects. Their reviews are focused on timing and cost considerations, compiling lifecycle costs, and preparing a preliminary Capital Improvement Plan recommendation for review and revision by the General Managers, Chief Financial Officer, Deputy/Assistant Managers, City Manager, City Council and various boards and commissions comprised of citizens. A list of Coordination Team members appears in the appendix, page 147.
- The **Division Directors, General Managers, and Charter Officers** are responsible for reviewing historical performance, anticipating future problems and opportunities, considering alternative solutions, and modifying and assembling their program data into a cohesive budget information package. General Managers critically evaluate all requests, prioritize, and submit a balanced budget plan including only those requests, which support City Council's Broad Goals, City Manager workplan, administrative direction, and program objectives.
- The **Budget Director** and **Budget Analysts** are responsible for preparing the short-range and long-range revenue and expenditure forecasts, calculating user and indirect cost rates, developing the process and related forms for preparing the budget, providing budget training sessions to the Budget Liaisons and CIP Liaisons, coordinating the compilation of budget data, analyzing operating and capital budget requests, evaluating and summarizing budget requests from departments and preparing budget review materials for the Chief Financial Officer, Deputy/Assistant Managers, City Manager, Mayor, and City Council.
- The **Budget Director, Chief Financial Officer (CFO), and Deputy/Assistant City Managers** collaborate in developing programmatic, operating, and capital policies and financial plans that help define how Scottsdale will achieve its long-term goals. They are responsible for reviewing the program operating and CIP requests and working with program managers to develop program and service recommendations that are consistent with City Council's Broad Goals, management strategies, and the City's Adopted Comprehensive Financial Policies (see page 22 of this Overview section).

- The **City Manager** is responsible for reviewing the total financial program and submitting a balanced City-wide proposed budget, which supports the City Council's Broad Goals established by the Mayor and City Council.
- The **City Council Budget Subcommittee** gathers citizen input and priorities regarding the City's budget early in the budget development process. In the early winter the Subcommittee holds public budget forums in various geographic locations throughout the City. In late March, the Subcommittee holds budget work sessions with each of the department heads to review their proposed operating and capital budgets. The sessions are open to the public and are intended to assess how well the department's proposed budget aligns with the earlier citizen input, priorities, and supports the City Council's Broad Goals established by the Mayor and City Council. The Subcommittee also reviews the City's proposed multi-year Financial Plan including an examination of the revenue forecast and related assumptions. The Subcommittee members report their findings to the full City Council during a public meeting, in early May before the first public budget hearing with the full Council.
- The **Mayor and City Council** initially set the direction for the budget by establishing broad goals for the organization, which serve as a basis for decision-making. The Mayor and City Council are ultimately responsible for the review of the City Manager's proposed and tentative budget and final adoption of the budget.

City of Scottsdale's Budget Process

The budget process is key to the development of Scottsdale's strategic plan - allowing City Council and staff the opportunity to reassess goals and objectives and the means for accomplishing them. While the budget may be reviewed by the Mayor and City Council in April and May and adopted in early June, its preparation begins with the City Council's fall retreat, which is open to the public. During the retreat the Council members collaborate on establishing a mission and broad goals for the community and articulating their priorities. During the retreat the following are also typically covered: methods of expanding and enhancing public input, the City's Financial Policies, the most current Financial/Revenue Forecast, and any emerging "hot budget issues". The City Council's feedback from the retreat provides the groundwork and starting point for the staff to begin framing the program and Capital Improvement Plan budgets.

Needs Assessment and Financial Capacity Phase

In this phase, which begins in the late summer and continues up to the final budget adoption, the staff compiles and updates on an ongoing basis the City's multi-year revenue forecast. The first year of the estimated revenues ultimately defines the expenditure limitations for the budget to be developed. The multi-year revenue perspective further refines the City's current and future period expenditures — with the goal of not adding programs, services or staff which do not have a sustainable funding source.

Also, during this key phase the City staff is assessing what programs, services and capital needs exist as seen by our citizens, boards, and commissions. Public input and involvement are an extremely important and value added component of Scottsdale's budget process in assessing citizen satisfaction with services and establishing priorities for the coming budget year(s).

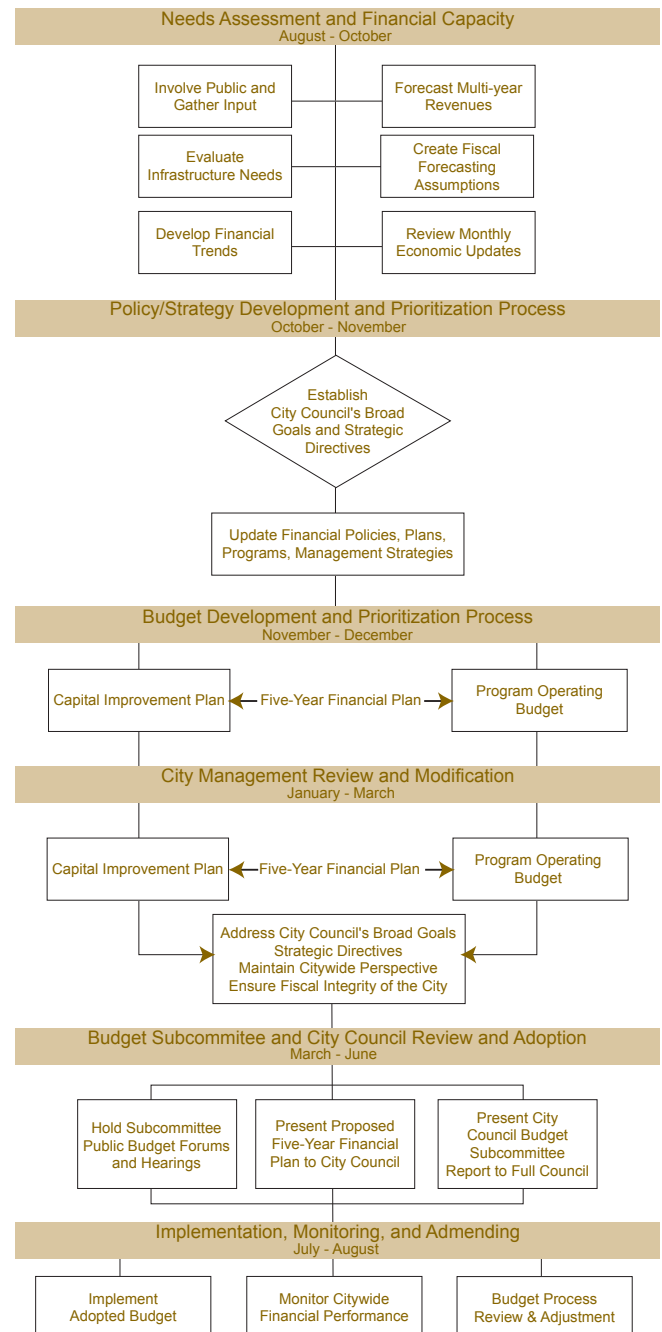
One way the City gathers public feedback on citizen satisfaction with services is through a citizen survey. In the early fall, an independent research organization conducts a citizen survey, which is facilitated by the City's Communications and Public Affairs (CAPA) staff and the results are shared during the City Council fall retreat.

Another way the City gathers public input and further insight into citizens' budget priorities for the forthcoming budget is through the City Council Budget Subcommittee. The Budget Subcommittee hosts a series of public budget forums in various geographic locations in the City during January. After the City Manager's proposed budget is released in March, the Budget Subcommittee conducts public budget work sessions reviewing the departmental/program budgets and the proposed multi-year Financial Year Plan and proposed budget with the City staff in budget work sessions.

The staff and City Council also use the Economic/Financial Updates and Financial Trends Analysis Report as integral parts of the budget decision-making process incorporating both short and long-range economic and financial forecasts, program objectives and financial policy. The City's current financial condition with existing programs is evaluated, as well as its future financial capacity to sustain service levels. The most recent Economic/Financial Updates and Financial Trends Analysis Report may be viewed on the City's Internet website: www.ScottsdaleAz.gov.

The City's infrastructure needs (capital improvement projects) are also evaluated and play an important role in forecasting related short and long-term operating needs. The General Fund's ability to absorb the ongoing operating costs associated with proposed

Budget Phases



capital projects is an especially significant criterion in assessing whether a project moves forward in the Capital Improvement Plan and receives funding in the proposed Program Operating and Capital Budgets.

During this early phase of the budget development, the Financial Services Department staff make key fiscal forecasting assumptions, i.e., reserve funding, capital funding contributions, and compensation adjustments with special consideration given to major compensation cost drivers such as healthcare and retirement increases. The projected impacts of cost/inflation over the City's multi-year expenditure projections are also considered and factored into the analysis. The Financial Services Department staff prepares the City's multi-year revenue forecast for all major revenue sources using historical trend analysis as the starting point and then modifies the results to reflect emerging or known changes in each revenue source. Using the updates from the Financial Services Department staff monthly revenue meetings the earlier multi-year revenue projections are further updated and refined. This is an ongoing process before the budget is adopted, and usually results in at least monthly updates to the multi-year revenue projections. The review and forecasting process is an iterative one and continues with monthly monitoring by the Financial Services Department staff after budget adoption.

The preliminary assumptions are used to forecast the City's fiscal capacity and provide the financial framework within that program service levels and capital infrastructure project budgets must be developed.

Policy/Strategy Development and Prioritization Process Phase

At its fall retreat, the City Council review the citizen input, Financial Policies, Economic Trends Analysis, citizen survey results and the most current Financial Forecast. They discuss broad organizational goals, priorities, and constituents' suggestions and expectations for Scottsdale. From this, the City Council establishes broad goals and strategic directives, which are the cornerstone for the development of the budget. These broad goals provide the overall direction for Scottsdale and serve as a basis for decision-making. The executive and senior management staffs update City financial policies, plans, programs, and management strategies to define how the City will achieve the broad goals. It is within this framework that the City staff formulates the proposed Program Operating and Capital Budgets.

Budget Development and Prioritization Process Phase

In the early fall the Capital Improvement Plan development begins in conjunction with the City's financial forecasts. Initial departmental capital project requests and changes to exiting capital projects are reviewed by a cross-departmental team for accurate costing, congruence with City objectives and prioritized using a set of predetermined criteria. Financing sources are then sought for the highest-ranking projects. The teams involved in this process include the CIP Technology Review Team and the CIP Construction Review Team. The CIP Technology Review Team is made up of mid-level technology managers from various City departments. The CIP Construction Review Team is made up of mid-level Capital Project Management staff with expertise in public building planning and construction, street improvements, stormwater management, landscaping, etc. The staff when developing their Program Operating Budget plans closely considers the operating impacts of current and proposed capital projects. Staff also considers City Council's Broad Goals and strategic directives as they develop program objectives and work plans for the budget period.

Later in the fall after the CIP is underway, the City staff updates their proposed performance measurements. The performance measurements are developed to measure results and ensure accountability, which enable managers and policy makers to evaluate progress towards stated goals and objectives. The staff also prepares their proposed Program Operating Budgets at this time, using a zero-based program budget approach, which requires that the budget prepared solely at the existing service operating levels – no modifications are permitted at this stage of the budget development. The departmental staff is also asked to evaluate their programs and/or positions for possible trade-offs, reductions or eliminations, or service level changes to offset inflation, contractual, compensation, and benefit cost increases.

Under the City's zero-based program budget approach, any proposed changes in service levels, new programs, population/service growth, additional staff, and program trade-offs resulting in service level reductions/increases must be submitted to the Budget Office in an Evaluation Decision Package. An Evaluation Decision Package provides extensive analysis and justification for the department's request and is reviewed by the City Manager during the budget development and prioritization process. In the later stages of the City's budget development process, Evaluation Decision Packages are considered and balanced among

numerous competing demands within the City's available, ongoing resources. When funding needs exceed the City's funding limits, remedies may be one or more of the following: reduce base budget, identify new revenues, employ process management tools, and/or form partnerships with other City programs or non-profit organizations.

City Management Review and Modification Phase

In the early winter, the Department submit their proposed Program Operating Budget and Capital Project Budget requests to the Budget Office. The Budget Director and Budget Analysts compile the information and provide the first review of the material. The initial multi-faceted review focuses on: ascertaining the departments complied with the Budget Office's budget instructions, reviewing the mathematical accuracy and logic of the departmental base budget and capital project requests, and any Evaluation Decision Packages. The review also includes a broader assessment of whether the departmental budget proposals address City Council's Broad Goals, strategic directives, and program service needs while maintaining a citywide perspective ensuring the fiscal integrity of the City (not exceeding our forecasted resources/limits).

The Deputy/Assistant City Managers, City Manager, CFO, Budget Director and Budget staff collaborate on the development of a recommended Five-Year Financial Plan and proposed budget for each fund and submit to the City Council for review and adoption. As noted above, the City Council Budget Subcommittee also reviews the proposed multi-year revenue forecasts for reasonableness and the expenditure budgets for efficiencies and alignment with community needs and expectations.

Budget Subcommittee and City Council Review and Adoption Phase

In late March, the City Council Budget Subcommittee holds public budget work sessions to review each department's budget and the City multi-year Financial Plan. This review is detailed in nature and focuses on how the department's program budgets address the articulated priorities of the public and City Council's Broad Goals.

In the early spring, the City Manager and CFO present a proposed financial plan — operating and capital — to the City Council for consideration and further public input. The City Council Budget Subcommittee presents their findings to the full City Council in early May, before the City's first public budget hearing. The budget is also communicated to the general public in a summary

format using a newspaper insert, "Budget in Brief" handouts, televised public City Council meetings and budget hearings, Internet and/or a combination of these formats.

The full City Council considers the proposed operating and capital budgets and holds work-study sessions and public budget hearings in April through June. The sessions provide an opportunity for City management, departments, and the general public to offer information and recommendations to the City Council.

The series of statutorily required public budget hearings and Council work-study sessions are held and the City Council adopts the budget and tax levy consistent with the City Charter and State law. Per State statute, the City Council must have Tentative Adoption of the proposed budget, on or before the second public budget hearing, which is usually held in mid-May. Tentative Adoption sets the legal maximum expenditure (i.e., appropriation) limit for the coming fiscal year budget. Under the City's Charter, the Final Adoption of the budget must occur at the first Regular City Council meeting in June.

Arizona State law requires a "balanced" budget, which is "all-inclusive". Arizona State Revised Statute (ARS 42-17151) defines a "balanced" budget as follow:

"Fix, levy and assess the amount to be raised from primary property taxation and secondary property taxation. This amount, plus all other sources of revenue, as estimated, and unencumbered balances from the preceding fiscal year, shall equal the total of amounts proposed to be spent in the budget for the current fiscal year."

Under Arizona State law "all-inclusive" means if an item is not budgeted (i.e. does not have an appropriation), it cannot legally be spent during the fiscal year. Therefore, the budget must include sufficient appropriation provisions for expenditures related to revenues (e.g., possible future grants) that cannot be accurately determined or even anticipated when the budget is adopted in June. This budgetary flexibility allows the City to comply with the Arizona State law and to pro-actively pursue emerging revenue sources as the budget year unfolds. The contingent expenditure appropriations associated with items such as possible future grants/revenues may not be spent without prior City Council approval during a public meeting.

Arizona State Revised Statutes only requires communities to prepare budgets for two funds — the General Fund (ARS 42-17101) and Highway User Fund (ARS 28-6533). In addition to these two funds the City prepares budgets and requests legal appropriation for all of its funds — Special Revenue, Debt Service,

Enterprise, Internal Service, Grant & Trust and Capital Improvement Plan Funds. The ordinance adopting the annual budget requires City Council authorization for expenditures from the aforementioned funds, which in the aggregate constitute the City's total Operating, Capital Budget and Contingency/Reserves for purposes of complying with the state's balanced budget and legal maximum appropriations requirements.

Implementing, Monitoring, and Amending the Budget Phase

In July, the City staff begins the process of implementing the newly adopted budget and is accountable for budgetary control throughout the fiscal year. Revenue and expenditure patterns are examined, compared to budget plans, and corrective action, if necessary, is taken during the fiscal year. Members of the Financial Services staff meet every month to review current demographic, economic and financial trends, which may impact the City, and to plan strategy to ensure the City's fiscal integrity. City management and City Council are also provided monthly Economic Update Reports disclosing actual revenue, expenditure, and fund balance performance as compared to the budget plan.

Upon the final adoption of the budget, staff implements the Program Operating Budget and the Capital Improvement Plan, incorporating all changes from the Tentative Budget proposal. The final Program Operating Budget and Capital Improvement Plan are typically published no later than the end of July.

Scottsdale's programs and activities are periodically reviewed to determine if they are achieving City Council's Broad Goals, accomplishing strategic objectives and making efficient use of limited resources. City values of "plan and innovate for the future" and "focus on quality customer service" along with City Manager directed studies of several service and program areas during the next budget year help communicate this expectation. The Financial Services Budget staff, senior management, and the Internal Audit staff all provide assistance to staff in their review of programs.

Every City service or program is expected to conduct self-assessments and develop cost and quality measures of efficiency and effectiveness. Internal performance measurements are developed and reviewed on a periodic basis by program managers. Scottsdale's culture, along with the City value of "listen, communicate, and take action" stresses open communication and stakeholder involvement determining satisfaction with programs and services and in identifying areas needing added attention.

Monitoring of the City's ongoing financial performance is required of all program managers on a monthly basis. Written budget to actual expenditure variance reports

must be submitted monthly by all City departments that have variances exceeding pre-determined variance ranges as established by the Budget Office. Additionally, the departments must explain in writing to the Budget Office any impact of a variance on the projected year-end budget saving and fund balanced budget.

The City of Scottsdale Budget is adopted at a department level and the Capital Improvement Plan is adopted at a project level. Per the City's Administrative Regulations, all proposed budget transfers from non-salary accounts between City departments, programs or capital projects require the written approval of the department General Manager, the requestor, and the Budget Director. If approved, the transfer is input into the budget system by the Financial Services Systems Integrator staff.

Per the City's Administrative Regulations, all proposed budget transfers from a salary account between City departments; programs or capital projects require the written approval of the department General Manager, the requestor, the Budget Director and the City Manager. If approved, the transfer is input into the budget system by the Financial Services Systems Integrator staff.

In addition, budget changes for capital projects funded by bonds require review by the Citizen Bond Review Commission and approval by the City Council. All requests for adjustment require written justification and an explanation of the fiscal impact, which is reviewed by the Financial Services staff prior to written approval.

All amendments to the budget that require a transfer from the Contingency/Reserve Funds require the prior approval of City Council at a public meeting.

Use of Contingency/Reserve Funds

The Contingency/Reserve Fund is strictly defined in the City's financial policies adopted by City Council annually and used when additional funds are necessary to offset events such as: unexpected revenue shortfalls or expenditure increases so that budgeted citizen service measures can be maintained; unanticipated grants are received; and when unanticipated and/or inadequately budgeted events threaten the public health or safety. Use of Contingency/Reserve Funds are to be utilized only after all budget sources have been examined for available funds. All Contingency/Reserve Fund requests require justification and an explanation of the fiscal impact, which is reviewed and approved in writing by the Budget Director, Chief Financial Officer, the applicable service area Deputy/Assistant Manager, and City Manager before being presented to City Council for consideration and approval.

Budgetary and Accounting Basis

Scottsdale's budget is prepared on a cash basis of accounting for all fund types, which means certain transactions are recognized in the budget on a basis other than Generally Accepted Accounting Principles (GAAP), which is the basis used to prepare the City's Comprehensive Annual Financial Report (CAFR). The major differences between the budgetary and GAAP basis are:

- Certain revenues, expenditures, and transfers are not included on the budget basis, but are accrued and reported on the GAAP basis. For example, increases or decreases in compensated absences are not reported for budget basis purposes, but are presented as revenues or expenditures on the GAAP basis.
- Indirect administrative cost allocations (including in-lieu property tax and franchise fees) charges to the Enterprise Funds are accounted for as transfers in or out on the budgetary basis, but are recorded as revenues or expenses on the GAAP basis.
- Capital outlays in the Enterprise Funds are presented as expenses for budget basis, but are recorded as assets along with associated depreciation expenses on the GAAP basis.
- Debt service principal payments in the Enterprise Funds are accounted for as expenses for budget purposes, but are reported as reductions of long-term debt liability on the GAAP basis.
- Certain debt service principal and interest payments are accounted for as expenses in the General Fund for budget basis purposes, but are reported as expenses in the Debt Service Fund on the GAAP basis.

All actual amounts in the budget document are shown on the budgetary basis to facilitate meaningful comparisons. Budgeted funds include the General, Special Revenue, Debt Service, Enterprise, Internal Service, Grant & Trust, and Capital Improvement Plan.

Operating and Capital Budget Relationship

The City of Scottsdale's Budget for FY 2004/05 is comprised of three volumes:

Volume One includes the City Council's Mission Statement and Broad Goals, City Manager's Transmittal Letters, and Adopted Financial Policies. The Five-Year Financial Plan covers the period FY 2004/05 through FY

2008/09 and forecasts results of operations by fund and incorporates the operating expenses of capital improvements for the period.

Volume Two presents the individual programs within each department. The publication includes specific information about the program descriptions and goals and objectives, customers, partners, staffing, along with a summary of the program operating budgets by expenditure category and the applicable funding sources.

Volume Three includes the Capital Project Budget and Five-Year Capital Improvement Plan with more detailed information for each project. Projects accounted for in Enterprise Funds are also included in the Capital Project Budget. Capital Project Budget funding sources are matched with budgeted expenditures. All future year operating impacts are noted in the Capital Budget and included in the Five-Year Financial Plan.

Expenditures for the Five-Year Capital Improvement Plan are presented on a budget basis. Governmental accounting procedures require adequate budget to pay for an entire contract to be available and appropriated in the period in which a contract is entered; therefore, expenditures are presented on a budget basis as opposed to cash flow basis. For example, a 180 day construction contract entered into in May of fiscal year one would have cash expenditures from May of fiscal year one through October of fiscal year two, however, the entire budget for this contract must be appropriated in fiscal year one, the year in which the contract was entered; any unspent funds at fiscal year-end are carried forward and budgeted again in year two.

Funding sources for the Five-Year Capital Improvement Plan are presented on budget basis except for transfers-in from the Program Operating Budget, which are presented on a cash basis. These revenue sources are presented in the period that the funding will be transferred in order to provide continuity between the Program Operating Budget and the Capital Improvement Plan. As a result of presenting the transfers on the cash basis, funding sources do not equal budgeted expenditures in each period, creating a fund balance as cash accumulates for larger expenditures in later years. For further explanation of capital project funding sources and expenditures, refer to the Capital Improvement Plan section, and the Fund Summaries and Five-Year Plan section of this Volume.